

Company Name: Logitech
Company Ticker: LOGN SW
Date: 2019-04-30
Event Description: Y 2019 Earnings Call

Market Cap: 6,896.57
Current PX: 39.84
YTD Change(\$): +8.92
YTD Change(%): +28.849

Bloomberg Estimates - EPS
Current Quarter: 0.364
Current Year: 2.058
Bloomberg Estimates - Sales
Current Quarter: 642.800
Current Year: 2984.846

Y 2019 Earnings Call

Company Participants

- Benjamin Lu, Head of Investor Relations
- Bracken P. Darrell, President & Chief Executive Officer
- Vincent Pilette, Chief Financial Officer

Other Participants

- Ananda Baruah, Analyst
- Asiya Merchant, Analyst
- Andreas Mueller, Analyst
- Jurgen Wagner, Analyst
- Paul Chung, Analyst
- Joern Iffert, Analyst
- Michael Foeth, Analyst

Presentation

Operator

Good day, and welcome to the Logitech Fourth Quarter Fiscal 2019 Financial Results Conference Call. At this time all participants are in a listen-only mode. We will be conducting a question-and-answer session, and instructions will follow at that time. (Operator Instructions) This call is being recorded for replay purposes and may not be reproduced in whole or in part without written authorization from Logitech.

I'd now like to introduce your host for today's call, Ben Lu, Head of Investor Relations. Please go ahead.

Benjamin Lu, Head of Investor Relations

Thank you, James. Welcome to the Logitech conference call to discuss the company's financial results for the fourth quarter of fiscal year 2019. The press release, our prepared remarks and slides, as well as a live webcast of this call are available online at the Investor Relations page of our website, ir.logitech.com.

During the course of this call, we may make forward-looking statements including with respect to future operating results that are made under the safe harbor of the Securities Litigation Reform Act of 1995. The forward-looking statements involve risks and uncertainties and actual results could differ materially as noted in our quarterly and other filings with SEC. The company undertakes no obligation to update or revise any forward-looking statements as a result of new developments or otherwise.

Please note that today's call will include results reported on a non-GAAP basis, except as otherwise noted. Non-GAAP reporting is provided to help you better understand our business. However, non-GAAP financial results are not meant to be considered in isolation from or as a substitute for or superior to GAAP results. Non-GAAP measures have inherent limitations, should be used only in conjunction with Logitech's consolidated financial results, prepared in accordance with GAAP. Our press release and slides provide a reconciliation between GAAP and non-GAAP numbers and are posted on our IR website. We encourage listeners to review these items.

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Joining us today from California are Bracken Darrell, President and CEO; and Vincent Pilette, the CFO.

I will now turn the call over to Bracken.

Bracken P. Darrell, President & Chief Executive Officer

Thank you, Ben. And thanks to all of you for joining us. Logitech delivered another great year, with fiscal year 2019 sales and profits up double-digits for the third year in a row. Sales were up 10% and profits were up 23%. Our three growth businesses and it's kind of fun to follow -- call this first one a growth business. Creativity and Productivity, Video Collaboration and Gaming all performed well and will continue to drive growth through this year as well.

I'm excited about the secular trends underpinning growth in these large categories. There are three major global trends driving these businesses and they are just a few of the many reasons why we're so excited, and where we are about being the world's leading cloud peripherals player. First, the first trend, if you are under 30 or have kids who are, you know that there are only two kinds of calls you make. Audio calls when you're moving and video calls when you're stationary. But when you look at your offices, you will probably see that most rooms are not video enabled. The cloud is changing this by making it accessible, affordable and easy. And we're in the very, very early stages as today only a low single-digit percentage of those rooms are video equipped.

I believe in the not-so-distant future every single closed space will be designed for video. And that's why we're so excited about the growth opportunities ahead of us in our Video Collaboration business. Just look at the recent successful IPO of our cloud video partner ZOOM. We are ready to outfit all those cloud video enabled rooms with our best-in-class solutions.

The second trend is one that you've heard me talk about time and time again. PC Game players has become one of the biggest if not the biggest exporter past time -- past times if you protocol that in the world. It's not just a fact [ph]. It's a full blown secular tidal wave. And like we see, the roots of this second massive trend are fueled by cloud and the social experiences it creates. In the social nature not only drives viral adoption by gamers, it also drives viral viewership in casual gamers. Today, more people are watching others play video games in almost any other sporting event and that viewership is concentrated. Concentrated under 30.

Imagine as this generation grows up, with leading technology in a broad portfolio of peripherals that deliver fantastic gaming experience. We've delivered six consecutive years of double-digit gaming sales growth. And we're not expecting that secular momentum to slow anytime soon.

The third trend is the explosion of content creators. Today, more people are watching content created by other people that any time in human history and it's hard to imagine, this trend slowing. While we all watch and love big budget movies, like Avengers End Game or shows on Netflix, there's an ever-growing library of content that people are creating. And that audiences are watching. The democratization and instant availability of this content is surging, thanks to Instagram, YouTube, Twitch, Facebook, and LinkedIn and others.

Content is being created by someone in the bedroom, in a living room, in a dorm room, in an open office, in a Starbucks or outdoors right now all the time, all over the world. An employer recently told me, his five year old niece is infacuated with watching this seven year old boy, named Ryan un-box and play with toys. Here's a little known fact, that seven year old boy YouTube Ryan show is called Toys or -- ToysReview, and was the highest worldwide earn on YouTube last year, polling in \$22 million, according to Forbes.

No, I'm not kidding. Content creators added stage in format at a desk using PC, using a keyboard, a mouse, a webcam and sometimes a microphone. And this is one of the reasons why our PC peripherals business has consistently been growing ever since fiscal year 2015. And frankly, we've not been specifically designing for that user. And new PC shipments may lag or even decline, we expect continued low single-digit growth for this large business going forward.

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Three big secular trends driving our business.

Now, let's talk about the track record we've built, driving into these trends. We did -- delivered another year of exciting growth in Gaming with fiscal '19 sales up 33%, gaining market share and improving profitability. Our core PC Gaming Group grew double-digits across all three regions. Or ASTRO Gaming expanded our presence into the console headsets space and most recently in the console controllers. This offset an expected decline in our Simulation Group, mainly racing wheels. That's most of the major racing titles were updated in fall of 2017.

Gaming, and particularly the Simulation part of the business is seasonal and title driven. What's most impressive, though, is our Gaming business still managed to grow double-digits in Q4, despite being well into the tough Fortnite growth comparisons from last year. That said, growth in ASTRO in fiscal year '20 will be tough to predict, given the unpredicted -- unprecedented growth we saw last year. And that's why we expect 15% to 20% growth in total Gaming sales for fiscal year '20 versus the 33% we just posted.

Our growth of Gaming will sometimes be more lumpy, especially by product line, we expect this Esports phenomenon to continue to fuel the long-term growth of our Gaming business for many years to come.

Video Collaboration sales grew 44% in fiscal year '19. Sales in this category were practically zero, I mean six years ago. Since then, our VC sales have put up a six-year sales, kind of CAGR, compound average growth rate of over 50%. We are looking for VC sales growth of 25% to 30% for this coming year, you can be sure that I'm pushing the team to outperform that.

As you've heard us say before, we're continuing to grow and invest in our direct sales force. And on top of that, we're also innovating in our product portfolio. Sales of our huddle room MeetUp product more than doubled year-over-year. And we showed at our March Analyst Day, our VC product portfolio can now address both small hotel rooms and all the way up to large conference rooms. What does that mean? It means that our previous average customer hardware price point of around \$1,000 for MeetUp can now potentially go to \$2,000 or \$3,000, using our new Rally Camera system. All the while expanding our addressable market in those larger rooms, in fact Rally has shown early signs of success after its initial launch this past quarter.

And one of our newest products, the universal meeting rooms control panel tap as already created a lot of excitement with customers, and we will be shipping shortly, and I strongly encourage you can see the commercial for that it's incredibly good and funny. It's still early days for companies to adopt lower cost cloud-base Video Collaboration solutions, and we see years of strong runway ahead of us.

PC peripheral sales increased 7% in fiscal year '19, representing the fourth consecutive year of growth with all three product lines Pointing Devices, Keyboards and Webcams delivering growth. We've demonstrated, as long as we keep innovating for all different use cases, whether you're a creative designer, a social content creator, a student, an investment analyst or somebody else, we can achieve consistent growth. Our MX Vertical has become a hit, and it's not only taking share in the vertical mouse market, but it's also actually dramatically expanded the size of that market.

Our China team also developed the Slim inexpensive Pebble mouse that strongly resonated with millennials in China and It's off to a great start than close to users and using designed unlock the power of our engineering has been one of our hallmark capabilities for the last five or six years. And we're not letting up.

Tablet and other accessory sales -- I'm sorry, I'm sorry, Tablet and Other Accessories, sales grew for the second straight year up 20%, while we saw decline in Q4, this is due to the timing of our introduction of the new Slim Folio, the latest generation of the iPad Pro, which just launched this month. As long as the iPad market remains healthy, we'll continue to introduce new products and drive growth.

Mobile Speakers were down 26% for the full year with Q4 sales up 81%. Don't get too excited about our strong Q4 growth, we had a very weak fourth quarter for Mobile Speakers last year. So I wouldn't view this Q4 performance as a trend. And as we have stated before, the overall mobile speaker market remains soft, and so we've taken measures to better align our investments, our resources and our channel inventory. But we'll continue to innovate and come out with new products and experiences.

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Audio and Wearables sales were up 11% for the year, due largely to our recent acquisition of Blue, which contributed roughly 2 percentage points to our overall growth in 2019. We love Blue, and we love the Blue team, which delivered another strong double-digit quarter. Excluding Blue, Audio and Wearables was down single-digits. We remain excited about the opportunities in the wireless earbud market. Jaybird is taking a disciplined approach to carving out its own unique niche, building out great products targeted at athletes.

Now let me talk about the news we announced regarding Vincent Pilette, our CFO and my partner. He and I are actually, much to your surprise both wearing our jackets today in honor of his last earnings call at Logitech. I can't in this call without thanking Vincent for the last six years he has dedicated to Logitech as our CFO, and he is one of my closest partners. He was here in the early stages of Logitech's turnaround, as where many of you, and played a critical role driving the company's transformation, which is the Logitech you know today. The multi-category multi-branded design company, the growth company. But more important than the work Vincent did in helping us get back to a growth company, is the team he built, and the rigor he is brought to the way we work. We now have a strong seasoned finance team across every area and that's the most important legacy he will leave.

We've named Nate Olmstead, who is sitting down the table from me, as our Interim CFO while we search for the new CFO. Nate joined us earlier this year from Hewlett-Packard Enterprise, and brings over 16 years of deep financial management expertise. Most recently as the Vice President of Finance for Global Operations at HP. Vincent and Nate will spend the coming weeks together, working on the transition plan and meeting with each of you.

Now, let me turn the call over to Vincent to walk you through our financial metrics.

Vincent Pilette, Chief Financial Officer

Thanks, Bracken. For the record, I'm wearing a Jacket but no tie.

Bracken P. Darrell, President & Chief Executive Officer

Me too.

Vincent Pilette, Chief Financial Officer

As Bracken mentioned, we delivered another year of strong financial performance. The sixth one to be exact. Fiscal year 2019 sales reached \$2.8 billion, up 10% in constant currency, while our non-GAAP operating profit rose 23% to \$352 million better than we expected. Non-GAAP EPS was \$2.01, a significant milestone for us, because three years ago, we had laid out the roadmap towards doubling EPS to \$2, and we did it a year earlier. From here, we will focus on driving continued top line growth, diversifying the portfolio and delivering operating leverage as we recently raised our long-term operating margin target to 14% on the high end of our range versus 12.6% in fiscal '19. Our fiscal '19 gross margin reached 37.8%, up 190 basis points at the midpoint of our recently raised long-term range of 36% to 40%.

As you recall from our recent Analyst Day in Zurich, we took up the high end of our gross margin target range to 40%, and that is due to three factors. One, is normal cost structure improvements, which we will continue to drive for and as you can tell from our margin increases in the past few years, we have a pretty good track record of reducing cost faster than natural product price decline. The second factor is better product mix, as we shift more into Video Collaboration, Gaming and PC peripherals, which all generally have better gross margins than the other categories. Finally, the third factor is our desire to transition the business model to a more branding and marketing led activities for more promo led demand generation that we have mainly used in the past. In that sense, we will be balancing how much we spend in gross to net promotions versus what we will spend on marketing OpEx.

As we continue to build our multi-brand, multi-category portfolio, you can be sure that we will look to expand our capabilities around marketing and branding.

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Our non-GAAP operating expenses increased 10% in fiscal '19 to just over \$700 million or up about 8% excluding Blue. This demonstrates our continued discipline in driving operating leverage through balancing our spend with both top line growth and gross margin expansion, while continuing to invest to capture our best growth opportunities.

Our approach is pretty simple. We continuously look to optimize infrastructure spend to invest more in building and selling great products. Our sales and marketing and R&D spend were both up 12% for the year to support the strong top line growth, while we kept our G&A spending flat for the year at a record low 2.9% of sales. And as a result, we delivered better-than-expected profits for both Q4 and fiscal '19.

Now let me talk briefly about our cash flows. Cash flow from operations was \$305 million for the full year, down from \$346 million in fiscal '18. Also cash flow continues to be very strong for the company. The decline in cash flows year-over-year was mainly a result of the strategic putting of inventory ahead of tariffs, and a more back-end loaded sales in Q4. Overall, though, we continue to expect our cash flow from operation to generally approximate one-time non-GAAP operating income as shown by the average of the last five years.

In summary, we feel very good about this past year and the business is well positioned to deliver another great year in fiscal year 2020. Finally, as Bracken mentioned, I've decided to leave Logitech, full of mixed emotions, of course, but wish tremendous optimism for Logitech and its future. We've just delivered our six year of growth. The company is well positioned to deliver on the long-term model we laid out in March. And so there was no better timing for me to pass the CFO's responsibilities to Nate and pursue a new challenge. I was a shareholder before I joined, and I will stay a passionate shareholder and a big supporter of the team moving forward. And before I get emotional, let me pass it back to Bracken.

Bracken P. Darrell, President & Chief Executive Officer

If you believe Vincent ever gets emotional you don't know him well enough. Fiscal year '19 marked another great year for us. We're well positioned to drive continued growth in fiscal year '20, as we continue down our path of being the largest cloud peripherals player. I'm energized our plans and I'm energized by our people. We just gave our outlook for fiscal year 2020 in March and today we're confirming that outlook. Sales of mid to high single- digits in constant currency and non-GAAP operating income of \$375 to \$385 million.

And with that, Vincent and I are ready to take your questions. James why don't queue them up.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Ananda Baruah from Loop Capital. Go ahead please your line is open.

Bracken P. Darrell, President & Chief Executive Officer

Hi Ananda.

Vincent Pilette, Chief Financial Officer

Hi Ananda.

Ananda Baruah, Analyst

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Hi. Good morning guys and hey Vincent. Yes. So we'll miss -- we'll miss working with you and congrats on a job well done. We look forward to seeing you where you land and maybe with any luck we can make it three for three. So we'd love to. Yes. So, just with regards to the business. So congrats on solid top line, solid results. So quicker look, this is a solid up margin beat. And so just sort of philosophically are you guys starting fiscal year '20 from perhaps a little bit of a higher sort of higher floor than you thought you might be at the Analyst Day, how should we think about that cadence in the context of the fiscal year '20 guide. Then I have a couple of follow-ups. Thanks.

Vincent Pilette, Chief Financial Officer

Yes. Ananda in term of guidance at this point, I mean, it's way too early to change our guidance. I think the business overall is performing well. And as we always said, we are operating a little bit higher in our gross margin. We would like to have the capability to reinvest, and continue to invest for the future. So I would say it's all built in. Going into fiscal '20, we still have many variables like either tariffs or currency that we don't control, and so we like to have a lot of variability in our P&L, to be able to always deliver on our commitments.

Ananda Baruah, Analyst

Okay. Okay, great. And then Bracken on Gaming, can you -- could you just point out, if there is any specific catalysts for the year Fortnite has been a really tremendous catalyst for a while now. So what do you see as being catalyst post Fortnite and maybe that's not the registered -- right way to think about it, but whatever those dynamics are, yes, and then secondarily is Fortnite, to what extent, if any, you consider Fortnite will still be a catalyst? And then I have one more after that. Thanks.

Bracken P. Darrell, President & Chief Executive Officer

Okay. Yes, Fortnite. Well, first of all, I think the primary catalyst is the -- and the catalyst maybe an interesting word to you use for it, but is the underlying secular trend that's just happening. The growth of Esports, the excitement around Esports and then as you said, the launch of new games is always going to be a big deal, but remember the underlying continued growth of the existing games is still continues to be really exciting. So I'm not sure I -- you could point at this point of the year to a single catalyst that will drive the short-term, but the long-term secular trend is -- seems kind of almost inevitable to me. And so new games are coming at all the time. The Game publishers don't sit on their hands. When Fortnite came out and created such a wave the Activision Blizzard and Electronic Arts and so many others have been doubling down on creating new games and you're starting to see them come out. So I think it's -- I think we'll have all kinds of surprise in the Gaming business, but even if we don't, the secular trend will just continue.

Ananda Baruah, Analyst

Okay, great. And just -- is it, as we see more Gaming services enter the market, and some of them also -- are also now sort of not surprisingly targeting increasingly sort of some of the larger phones and from a couple different service providers, is there an opportunity long-term or even in the medium term for you guys to come out with product that might serve as an interesting alternative to just sort of in the normal earbuds for folks for that market?

Bracken P. Darrell, President & Chief Executive Officer

Well you know, we tried to comment about specific categories and we might have playing it, but what I would say is you referenced something else, I do want to jump on, which is the creation of new services like cloud-based services that enable you essentially have a mega PC experience, without the PC on your desk or another growth enabler for us, because you continue to need a headset, the keyboard and a mouse so this is a super exciting thing for us and we've

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seen this coming. It started with some start-ups and that's going to Microsoft and Apple and others. So I think that's going to be exciting.

In terms of mobile gaming in general, mobile gaming continues to be a huge and growing, and we certainly think there are in interesting places to play in there, and obviously headsets are more part of this. Some of our products are probably already used for some of the mobile gaming. But we haven't directly targeted that yet. And it is an interesting area.

Ananda Baruah, Analyst

Okay, great. That's helpful. And then last one from me. Video Collaboration, did I hear you accurately Bracken, you said you guys are targeting 25% to 30% growth for the year, and this is the first time you've disclosed that if I heard that right. The fiscal year '20 or was that actually a target or is that actually from the -- at the Analyst Day as well?

Bracken P. Darrell, President & Chief Executive Officer

No, Yes, we disclosed at the Analyst Investor Day. So that's not a new number. But we -- the real point I was making there was, it's really -- at this point, it is little hard to get too specific on it, but we're excited about Video Collaboration. I think we're the only building I ever go into this is video enabled as the future will be in every building.

Operator

And your next question comes from the line of...

Bracken P. Darrell, President & Chief Executive Officer

By the way -- by the way Ananda I went to this really cool company whose average age is probably 28, that has a lot of employees, not too long ago and I won't to mention who it was, and it blew my mind. That I walked through their building and there were so many in close basis. I mean it looked like ours in that regard as an open office. And so few, in fact I didn't see any video enabled spaces except the boardroom, which is just or maybe, maybe one or two of the larger and so the opportunity is so big. Thanks Ananda.

Operator

And your next question comes from the line of Asiya Merchant from Citigroup. Go ahead please. Your line is open.

Asiya Merchant, Analyst

Hi. Good morning everyone and thank you. And Vincent, we'll miss you as well. But good luck on your next venture. A quick question, you know, now with probably the CFO search underway, and I know you have an Interim CFO here, how should we think about acquisitions? I mean in the past couple of years, you guys have done smaller acquisitions and they've obviously contributed to the top line. So should we assume there's a little bit of a step back from these little acquisitions that you might have considered prior to Vincent's departure?

Bracken P. Darrell, President & Chief Executive Officer

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No. I wouldn't assume that at all. We're always looking and we'll keep looking. I think, it would be crazy for us to stop doing what we do well. Vincent's leaving but Vincent's left a great team behind, I mean Nate's going to be terrific and we're not letting up on anything at all.

Vincent Pilette, Chief Financial Officer

And if I can add especially in acquisition, but it's actually true in every discipline. It's really a team work between the business development team, the strategic team, Bracken's involvement, mine, the general managers and so especially in the M&A, it is really a broad effort, the CFO is definitely part of that, but not the only player.

Bracken P. Darrell, President & Chief Executive Officer

But I would say we -- we've done acquisitions and they get more focus for all the right reasons. We're really an organic growth company, and we've -- we're, first and foremost an organic growth company. If you look at VC and Gaming and PC peripherals, really underneath all that is an innovation engine, that is the key to this business, but we're going to continue to do acquisitions.

Asiya Merchant, Analyst

Okay. And then just a couple of follow-up. In your quarter there was some commentary in the prepared remarks that there were some linearity in the intra-quarter that suggest it was back end loaded, so what is the surprise there? And then as a follow-up to that, at your Analyst Day you talked about mid to high single-digit, keeping in mind some of the macro factors that were out there, perhaps the Fortnite factor as well. Has anything evolved from that line? Anything that has surprised you to the upside or to the downside?

Vincent Pilette, Chief Financial Officer

Asiya quickly on linearity. No, it was not a surprise since we talked last which just at the AIG. If you remember backing the last calendar quarter Q4 Christmas quarter there was a lot of volatility and in January the business of the quarter started slow, and then ramped up faster than last year and finished strongly in March and I think that caused some of the AR and cash collection to be delayed into the next quarter. That's what we were referencing too.

Bracken P. Darrell, President & Chief Executive Officer

Yes. In terms of, is there anything we've seen since then, it's so early in the year. It's really hard. It's really too early for us to comment on it. The economic environment or any of that stuff, so it's just too early. We have eleven months to go.

Asiya Merchant, Analyst

Okay, great. And cash conversion cycle as we revert back to perhaps more linear quarters and should we expect that to revert back to what has been a historic norm ex the ASC 606 impact?

Vincent Pilette, Chief Financial Officer

Yes. Absolutely, yes.

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Asiya Merchant, Analyst

Okay. All right, thank you gentlemen.

Vincent Pilette, Chief Financial Officer

Yes.

Bracken P. Darrell, President & Chief Executive Officer

Thank you Asiya.

Operator

Your next question comes from the line of Andreas Mueller from ZKB. Go ahead please. Your line is open.

Bracken P. Darrell, President & Chief Executive Officer

Hi Andreas.

Vincent Pilette, Chief Financial Officer

Hi Andreas.

Andreas Mueller, Analyst

Hello. Thanks for taking my question and good luck Vincent. We miss -- going to miss you. A question on the inventories. How do you see the progression of the inventories in the next quarters. Are we on the level now that is good enough to protect from the tariffs?

Vincent Pilette, Chief Financial Officer

Yes. I think as you know, we mentioned in our prepared remarks that we put in some inventories to protect against tariffs. It's not clear yet what tariffs will be in the future, but on the current assumptions I think we are stabilized, if you want and will burn of that inventory that we put in advance. It was the right economic decision using our balance sheet as the strength for that.

Andreas Mueller, Analyst

Okay. Then on -- and then on the operating cash flow, can you give us the absolute size of the operating cash flow that was impacted by this back-end loaded quarter?

Vincent Pilette, Chief Financial Officer

Overall, about \$40 million impact and about half of it from inventory pulling and the half on linearity.

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Andreas Mueller, Analyst

Then my last question. Can you dissect the gross margin uplift of this 160 basis points in the -- into the fact that currency product mix, cost savings, China tariffs and also could you indicate how these single factors are going to progress into Q1?

Vincent Pilette, Chief Financial Officer

Yes. So no, Andreas, I'm not going to go into my long, very detailed spreadsheet analysis here on the call to give all of the drivers. We always said, we have multiple drivers on the gross margin. We've been trending above 37% for the full year and Q4 is slightly above that, but in line with everything we said there. And all three factors were favorable to gross margin, which was cost reduction mix overall and the reduction of promo and more marketing expenses. Those trends will continue going into fiscal year '20. You should expect the gross margin in the first quarter here to be a little bit weaker considering that there was more currency impact at this point in time, which is the euro being at around \$1.12 in exchange rate. So that's -- that's -- but overall for the year we will be on a solid footing, and the three factors I've mentioned will continue to drive gross margin up.

Andreas Mueller, Analyst

Okay, great. Thanks a lot and good luck Vincent.

Vincent Pilette, Chief Financial Officer

Thank you.

Bracken P. Darrell, President & Chief Executive Officer

Thanks Andreas.

Operator

Your next question comes from the line of Jurgen Wagner from MainFirst Bank. Go ahead please. Your line is open.

Bracken P. Darrell, President & Chief Executive Officer

Hello Jurgen.

Jurgen Wagner, Analyst

Yes. Hi.

Vincent Pilette, Chief Financial Officer

Hi Jurgen.

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Company Ticker: LOGN SW
Date: 2019-04-30
Event Description: Y 2019 Earnings Call

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YTD Change(\$): +8.92
YTD Change(%): +28.849

Bloomberg Estimates - EPS
Current Quarter: 0.364
Current Year: 2.058
Bloomberg Estimates - Sales
Current Quarter: 642.800
Current Year: 2984.846

Jurgen Wagner, Analyst

Thank you for taking my question. Actually, I have two sell-through weakness in Europe. Is that going to reverse, you had some volatility in the past. Is it just normal fluctuation. And the second question would be, and yes you talked a lot about video in your prepared remarks, and now that the market is evolving and you are broadening your footprint we hear from others that they might see degrowth there. So how do you see your comp -- you're positioning and the competitive environment developing going forward, also because it's a high gross margin business for you. Is it staying amongst the highest gross margin product for you? Thank you.

Bracken P. Darrell, President & Chief Executive Officer

Yes. Let me take the last one first. I'll let Vincent take the first one last. So I think the video, as I mentioned, I think the video opportunity is so big that it's really, we're going to see strong growth in spite of what happens from a competitive standpoint and from a gross margin standpoint. I don't think there's any reason to think that the gross margin will be impacted by competitive -- the competitive environment. I think from what I can see there can be gross margin profiles of the competitors who have looked a lot like ours. So at least in the same vein. So I doubt it. I think the opportunity is really, really big for many companies and competitions great. Competition drives growth. It will drive more awareness in the market, and I think you'll see those other 95% of rooms come into video faster.

Vincent Pilette, Chief Financial Officer

So I will address the inventory and thanks for your question because there is a few analysts writing about that based on the reports we had put on our website. So, overall the selling gross rate or the net sales growth rate as you know is 5% in US dollars. The sell-through that you mentioned on a global basis is 4% excluding Blue and 6% including Blue. Overall the business channel inventories well positioned slightly less than revenue growth. So we feel good and we saw an end slightly down. So well positioned going into the first quarter of the next fiscal year.

As you have seen on the reported it's align in both Americas is actually even more favorable in the Asia-Pacific. And then in Europe, we have a little bit higher sales-in than sell-through and the thing to consider is really this reduction of promotions into marking up facts that's impacting the net sales-in but not reflecting in the sell-through. On the constant currency basis, sell-through in Europe was around 6% to 7% growth, and we feel pretty good about where we are in the channel there.

Jurgen Wagner, Analyst

Okay. Thank you.

Bracken P. Darrell, President & Chief Executive Officer

Thanks. Jurgen.

Operator

Your next question comes from the line of Paul Chung from JP Morgan. Go ahead please. Your line is open.

Bracken P. Darrell, President & Chief Executive Officer

Hi, Paul.

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Paul Chung, Analyst

Hi Bracken. Thanks for taking my question. And thanks, Vincent, you will be missed for sure. So first up on Video Collaboration, are you starting to see more competition on the huddle room side and then secondly, how's your progress been on kind of attacking the larger conference rooms and gaining share there. And what's your kind of go-to-market strategy? And then, any sense of revenue potential there would be great?

Bracken P. Darrell, President & Chief Executive Officer

Okay. On the competition on the huddle room side. Yes, absolutely, we are definitely seeing it's been out there and we've got several really good competitors in the huddle room space now. And as I said, as part of the earnings call I think competition -- I don't want to sound too polygon [ph] here but competition is good. I mean if you don't have competition, you don't have nearly the market growth potential, because competition drives communication in the market of the opportunity, and it will drive the market growth. So I think the -- more players in there is a good thing overall and it puts pressure on us to innovate and do -- and innovate well and that's what we're up to. So I'd say so far we continue to be excited about the potential there in line with what where we were before, but I think the market will be interesting to watch over time.

In terms of the large room, I spoke to early, we just launched Rally, we've had something that you could use in the large room, but I'm sure we'll do better than we had been in those large rooms that we have and I wouldn't try to quantify exactly what that is. I think there's just opportunity across the board.

Paul Chung, Analyst

Okay. And then on the ZOOM wireless headset, seems like a nice cross-sell opportunity in the enterprise space. So first, is this going to be classified in VC or Audio Wearables and then second, what's your strategy to gain market share there any kind of potential you see as well?

Bracken P. Darrell, President & Chief Executive Officer

That's going to be an Audio Wearables. And it's a first really attempt to get some experience into that marketplace. I don't want to overstate its potential. I think it's a terrific product, but it's the first and I would say really small step into exploring what it's like to be in that space and we're going to see how it feels like we did with video conferencing, six years ago. We got in the front door, it's kind of warm inside, and then we continue to walk inside and we're doing the same thing there.

Paul Chung, Analyst

Okay. And then lastly, just want to get your sense on keyboard and pointing devices still remains a \$1 billion business itself. So you continue to exceed expectations in this segment pretty consistently. It's pretty nice low mid single-digits there. Just can you expand on what's been driving your success there, whether it's ASPs, certain regions, and kind of your longer-term view of the segment will be very helpful. Thank you.

Bracken P. Darrell, President & Chief Executive Officer

Yes. It's really, it's really a global thing just like the underlying secular driver of that is a global thing. And then underlying secular driver is the fact that so many people are using their PC for more than they used to in the past, and

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they're using it for content creation. So again that might seem like a different go path explain how those two are connected but if you just think about the way a lot of people are creating content, not doing on their phones or doing at a desk, so doing on desk, they are doing with the PC and therefore, it's important part of their lives. I think that's really what's happening as long as we innovate and there are different innovation vectors that we can go after than we are. So the vertical mouse we launched two quarters ago or the end of the quarter before last, is another interesting one where people are using -- continue to use their PC so much that they get competitive user injuries and healthy computing is a big deal.

And it's a really big deal in the Nordics, it's becoming a big deal in Europe and it's starting to pick up stream here. So we've got different things that can drive and will drive and are driving that growth. And I think we continue to see that as we said, I can think we continue to see low single-digit growth for the foreseeable future.

Paul Chung, Analyst

Great. Thanks and good luck Vincent.

Vincent Pilette, Chief Financial Officer

Thanks, Paul.

Bracken P. Darrell, President & Chief Executive Officer

Thanks, Paul.

Operator

(Operator Instructions) Your next question comes from the line of Joern Iffert from UBS. Go ahead please. Your line is open.

Joern Iffert, Analyst

Hi. Hello Bracken, hello Vincent. Vincent we will for sure miss you hopefully, lots I get from missing you at some point in time. And quickly following up on Gaming, please. And your competitor Turtle Beach I think is guiding down their sales target by around 20% because they think this lower demand on the headset side. Are you also seeing similar trends or if not, what explains the difference and Bracken when you said Gaming can be sometimes a bit lumpy, does it mean that for example Q4 with plus 30% is kind of lumpy? Or can you also mention some point in time in the quarter Gaming is falling to flattish or plus 5% growth in the next one or two years?

Bracken P. Darrell, President & Chief Executive Officer

I think you can see that in the quarter. I think lumpy in terms of different categories grow at different rates, sometimes Simulation will be down, like it was this quarter and sometimes others will offset it. But yes, I think Gaming could be lumpy like that. I think you could see a drop down and be flat or single-digits or low-double digits. But I think the -- and what Turtle Beach I think guided, I didn't look closely at, but I would guess they are referencing the Fortnite affect. Remember they are completely in the Fortnite business from the headset business. So we're in a lot of other categories as well. So we'll decline 20% will it be flat or grow 10%, the headset business, especially related, who knows.

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I mean at the end of the day I think we've got enough tools in our arsenal that we're going to be able really drive good solid growth in spite of whatever that is. But I think the reality is, whatever happens with the Fortnite effect remember there are new games coming on. There look like they're on track to be as big as Fortnite, those are lot of stuff coming. I admire their conservatism. And I think they're probably right to do it if they're only in the headset business. But we're in mice and keyboards and headsets and Simulation, a lot of categories.

Joern Iffert, Analyst

All right, thanks. And would you say that Gaming guidance of 15% to 20% is this back-end loaded in fiscal year '20?

Vincent Pilette, Chief Financial Officer

No, it's partly regular through the year. And I just want to just add on Bracken's comments right so the diversification of our entire portfolio has been definitely a strength for us. Right. And we've been growing double-digit for three years at almost every quarter, we had the weakness in one specific category. We think Gaming now would become, as we discussed, like a pretty substantial business by itself. We have its own set of diversification and any quarter a subcategory of the Gaming business we have could be in a weaker position.

And when Bracken mentioned choppiness or some volatility, maybe we could see one quarter 5% is we are talking about a quality basis, we are not managing our core basis, we're looking at long-term trends and in the guidance we gave at the March, AIG, we definitely were cautious on the Fortnite effect and post Fortnite effect, I want exactly say what cautious means, but we were prudent going into the fiscal year '20.

Bracken P. Darrell, President & Chief Executive Officer

Yes. I just want to echo the comment that Vincent just made about our portfolio. I think one of the -- it's really been such a good event for us to be in so many different categories. I think, by the way that I count them now, we're in either 26 or 27 different categories. Some of those are Gaming, some of those are Video, so it's a nice situation for us because, and if you combine that with the fact that we are super, super global company with lots of market participation to, it does buffer us from the short terms ups and downs of a single category like that.

Joern Iffert, Analyst

All right. Many thanks.

Vincent Pilette, Chief Financial Officer

Thank you.

Bracken P. Darrell, President & Chief Executive Officer

Thanks Joern.

Operator

Your next question comes from the line of Michael Foeth from Vontobel. Go ahead please. Your line is open.

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Bracken P. Darrell, President & Chief Executive Officer

Hi Michael.

Michael Foeth, Analyst

Yes, hi, thanks. Just one left from me actually. I was just wondering the sort of relative weakness in comparison to past quarters that you reported in Asia. And I think you pointed specifically to Australia. If you can explain again what that is related to. If it's really general trend or is it related to some particular product category. And then, I'm not sure I understood exactly the difference between the -- in EMEA between the sell-through and the entity and the reported sell-in growth. If you can just explain that promotional driver there once again? Thank you.

Bracken P. Darrell, President & Chief Executive Officer

Let me take the first one and let Vince take the second one again. In Asia-Pacific, yes, we referenced that Australia-New Zealand had a strong slowdown in Q4 and I think that's, they tend to give the sort of the delayed effect on the rest of the world, and some of the categories we are in there also very, very large and music. So they are big music business for us. I think you -- the combination of being a very large music business, and then a delay in the slowdown in the market of bluetooth speakers, they sort of saw it this quarter. So that was the biggest driver.

But I do think Asia-Pacific will be slower growth, than it's been in the past. And we have this portfolio of regions too, where we've been growing 20%, 19%, 20%, 21% in Asia-Pacific, I think you'll see that come down for this year and still I think be strong double-digits but it will -- I think it will come down, and I think that's sort of what we would expect. And I -- and, but, so the Asia thing was this quarter's issue, and I think that will kind of flow through, but I think Asia-Pacific in general will be lower as Europe comes up and hopefully EMEA comes up.

Vincent Pilette, Chief Financial Officer

Michael, let me say high level on sell-through and then we can always follow-up in our one on one. So when you look at sell-through report we posted on our website versus net sale, there are three factors you need to keep in mind. The first one is the constant currency versus US dollars sell-through that we reported is reported to us in US dollars. So you need to compare that to the right course rate. The second one is that sell-through does not include Blue yet, as we have not fully integrated that business into that sell-through report you see one coming from third-party. And then the third driver is this reduction of contract revenue or gross to net and sell-through is on the gross level and net sales is all inclusive. And then I'll be happy to follow on more technical answer, when we have our one on one.

Michael Foeth, Analyst

Sure. Thanks a lot.

Bracken P. Darrell, President & Chief Executive Officer

Thank you. Thanks, Michael.

Operator

And there are no further questions at this time. I'd like to turn the call back over to our presenters.

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Bracken P. Darrell, President & Chief Executive Officer

Okay. Well I want to finish on two things. One is, we're -- we just finished a great year and we are starting a new one and that's always really exciting and we're excited about the year. I want to congratulate Nate. I think he is going to be instrument terrific and he has to be sitting close to me right now. We didn't put him on the hook today, but we will next quarter. And I want to again thank Vincent. It's rare to find a partner who shares your ambition as completely as Vincent did with me, and the good news is, there are others here who do as well. And I don't think he is leaving anything but a company, that's so much stronger than when he arrived, and we continue and we will continue to double down on what we've already built into the future.

So good luck, Vincent. Thanks everyone for attending the call.

Operator

This concludes today's conference. You may now disconnect.

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